

Auditing Procedures Report

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Issued under Public Act 2 of 1968, as amended.

Unit Name	Ingham County Road Commission	County	INGHAM	Type	AUTHORITY	MuniCode
Opinion Date	6/3/08	Audit Submitted	6/11/08	Fiscal Year	2007	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="20765195"/>
General Fund Expenditure:	<input type="text" value="20454226"/>
Major Fund Deficit Amount:	<input type="text" value="\$ 0.00"/>

General Fund Balance:	<input type="text" value="4770744"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="654659"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Steve	Last Name	Kirinovic	Ten Digit License Number	1101022020
CPA Street Address	3511 Coolidge Road, #100	City	East Lansing	State	MI
				Zip Code	48823
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				Zip Code	48854

**Ingham County Road Commission
Mason, Michigan**

FINANCIAL STATEMENTS

December 31, 2007

Ingham County Road Commission

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December 31, 2007

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Ingham County
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ingham County Road Commission, a component unit of Ingham County, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Ingham County Road Commission as of December 31, 2007, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 3, 2008, on our consideration of the Ingham County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the component unit financial statements that collectively comprise the Ingham County Road Commission basic financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Ingham County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 3, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the *Ingham County Road Commission*, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2007.

Financial Highlights

Net assets may, over time, enable governmental agencies to determine their overall fiscal position:

- Total assets exceeded total liabilities by \$97,164,793 at the end of the fiscal year.
- Total net assets increased by \$6,028,599.
- Total bonded debt had a \$0 balance at the end of the current year and the lease purchase agreement payable balance was \$24,190.

Overview of the Financial Statements

This discussion and analysis is prepared and reviewed by the management of the Commission, which includes the Board of Road Commissioners. It is intended to provide a basis for understanding of the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page.

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Road Commission's overall fiscal position.

The statement of activities presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Road Commission, which is principally supported by state shared revenues (operating finds/grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Ingham County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Ingham County which reports the Road Commission as a component unit.

The government-wide financial statements can be found starting on page 1 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Operating Fund).

Governmental funds. *Governmental funds* (General Operating Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, General Operating Fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the General Operating Fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the General Fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the General Operating Fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Operating Fund). Information is presented in the General Operating Fund balance sheet and in the General Operating Fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The General Operating Fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 7 through 19 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Governmental Accounting Standards Board Statement No. 34 requires this reporting model to show comparative information between the current and prior year. The following tables provide a comparative analysis of government-wide data.

Condensed Statement of Net assets:		<u>2006</u>	<u>2007</u>
Current and other assets		\$ 5,318,735	\$ 5,954,386
Capital assets		<u>87,248,583</u>	<u>93,092,384</u>
Total assets		92,567,318	99,046,770
Long-term liabilities outstanding		360,406	468,989
Other liabilities		<u>1,070,718</u>	<u>1,412,988</u>
Total liabilities		<u>1,431,124</u>	<u>1,881,977</u>
Net assets:			
Invested in capital assets		87,177,527	93,068,194
Restricted		<u>3,958,667</u>	<u>4,096,599</u>
Total net assets		<u>\$ 91,136,194</u>	<u>\$ 97,164,793</u>
Condensed Statement of Activities:			
Revenue			
Charges for Services		\$ 204,551	\$ 170,094
Intergovernmental		16,495,823	20,357,492
Interest and Rentals		64,341	188,527
Other		<u>44,321</u>	<u>12,350</u>
Total revenue		16,809,036	20,728,463
Expenses			
Public Works		14,024,934	14,697,575
Interest Expense		<u>4,662</u>	<u>2,289</u>
Total expenses		14,029,596	14,699,864
Prior Period Adjustment		<u>(191,061)</u>	<u>-</u>
Increase in Net Assets		<u>\$ 2,588,379</u>	<u>\$ 6,028,599</u>

Capital Assets and Debt Administration	<u>2006</u>	<u>2007</u>
Ingham County Road Commission Capital Assets		
Land and improvements - not depreciated	\$ 19,341,611	\$ 20,616,679
Buildings	6,164,367	6,358,799
Road Equipment	9,076,175	9,253,403
Shop Equipment	243,529	242,329
Office Equipment	761,341	770,454
Engineering Equipment	148,448	148,448
Yard & Storage Equipment	317,595	362,528
Infrastructure - Signals	108,172	141,837
Infrastructure - Roads	109,397,233	115,184,925
Infrastructure - Bridges	11,401,419	14,510,224
Infrastructure - Subdivisions	<u>6,821,338</u>	<u>7,442,266</u>
Sub-total	144,439,617	154,415,213
Accumulated Depreciation		
Buildings and improvements	2,880,621	3,037,472
Equipment	9,187,457	9,678,656
Infrastructure - Signals	14,128	21,340
Infrastructure - Roads	61,992,118	66,174,624
Infrastructure - Bridges	2,051,170	2,279,198
Infrastructure - Subdivisions	<u>407,151</u>	<u>748,218</u>
Total Accumulated Depreciation	<u>76,532,645</u>	<u>81,939,508</u>
Total capital assets being depreciated - net	<u>67,906,972</u>	<u>72,475,705</u>
Governmental activities capital assets - net	<u>\$ 87,248,583</u>	<u>\$ 93,092,384</u>
Long-term Debt		
Lease Purchase Agreements	\$ 71,056	\$ 24,190
Compensated absences	611,304	630,469
Other post-employment obligations	<u>-</u>	<u>117,140</u>
Total	<u>\$ 682,360</u>	<u>\$ 771,799</u>

Additional information on the Road Commission's capital assets and long-term debt can be found in Notes C and D, respectively, on pages 12 through 14 of this report.

Financial Analysis

As noted in the above tables, the Road Commission's financial position for the current fiscal year indicates positive balances for net assets. These have increased from the prior fiscal year.

The largest portion of the Road Commission's net assets reflects the investment in capital assets such as buildings, vehicles, equipment and infrastructure required to perform our business activities. These net assets are reduced by any related debt used to acquire the assets that is still outstanding. Because these assets are needed to conduct business activities and serve the citizens of Ingham County, they are not available for future spending. Thus, the resources needed to repay this debt must be secured from other sources.

Economic Factors and Road Fund Budgetary Highlights

The economy was a negative factor in 2007 and will continue to be one for the foreseeable future. The increasing cost of fuel and other products as well as the increases in benefit costs continues to pose a hardship on the finances of the Road Commission. The Road Commission's major source of funding is the MTF (Michigan Transportation Fund) revenues and there are continued concerns about this decreasing as people adjust their driving due to increased fuel costs.

During 2007 both the revenues and expenditures were substantially larger than 2006 due to Federal and State projects done during the year.

Revenues exceeded Expenditures by \$310,969 in 2007. This was mainly due to strong budgetary controls utilized during the current year and receiving more intergovernmental funds than was budgeted for and expending less on structural improvements for both primary and local roads than was initially budgeted.

Requests for Information

This financial report is designed to provide a general overview of Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Ingham County Road Commission, 301 Bush St., Mason, MI 48854.

BASIC FINANCIAL STATEMENTS

Ingham County Road Commission

STATEMENT OF NET ASSETS

December 31, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,699,365
Accounts receivable	20,776
Accrued interest receivable	4,703
Due from other governmental units	
State	2,007,687
Local	545,313
Inventory	<u>676,542</u>
Total current assets	5,954,386
Noncurrent assets	
Capital assets not being depreciated	20,616,679
Capital assets, net of accumulated depreciation	<u>72,475,705</u>
Total noncurrent assets	<u>93,092,384</u>
TOTAL ASSETS	99,046,770
LIABILITIES	
Current liabilities	
Accounts payable	787,748
Accrued liabilities	106,475
Security deposits payable	215,955
Current portion of compensated absences	278,620
Current portion of leases payable	<u>24,190</u>
Total current liabilities	1,412,988
Noncurrent liabilities	
Noncurrent portion of compensated absences	351,849
Other post-employment benefits obligation	<u>117,140</u>
Total noncurrent liabilities	<u>468,989</u>
TOTAL LIABILITIES	<u>1,881,977</u>
NET ASSETS	
Invested in capital assets, net of related debt	93,068,194
Restricted for county roads	<u>4,096,599</u>
TOTAL NET ASSETS	<u><u>\$ 97,164,793</u></u>

See accompanying notes to financial statements.

Ingham County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

	Governmental Activities
Program Expenses	
Primary Road	\$ 3,896,876
Local Road	2,758,749
Equipment - net	1,201,462
Administrative - net	1,459,582
Drain assessment	370,734
Infrastructure depreciation	4,751,601
Interest expense	2,289
Other expenses	258,571
	<hr/>
TOTAL PROGRAM EXPENSES	14,699,864
Program Revenues	
Charges for services	170,094
Operating grants and contributions	9,101,628
Capital grants and contributions	11,255,864
	<hr/>
TOTAL PROGRAM REVENUES	20,527,586
	<hr/>
NET PROGRAM REVENUES	5,827,722
General Revenues	
Interest	188,527
Other	12,350
	<hr/>
CHANGE IN NET ASSETS	6,028,599
Net assets, beginning of the year	<hr/> 91,136,194
Net assets, end of the year	<hr/> <hr/> \$ 97,164,793

See accompanying notes to financial statements.

Ingham County Road Commission
GOVERNMENTAL FUND BALANCE SHEET

December 31, 2007

	Governmental Fund Types
	General Operating Fund
ASSETS	
Cash and cash equivalents	\$ 2,699,365
Accounts receivable	20,776
Accrued interest receivable	4,703
Due from other governmental units	
State	2,007,687
Local	545,313
Inventory	676,542
	<hr/>
TOTAL ASSETS	\$ 5,954,386
	<hr/>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 787,748
Accrued liabilities	106,475
Security deposits payable	215,955
Deferred revenue	73,464
	<hr/>
TOTAL LIABILITIES	1,183,642
FUND EQUITY	
Fund balance	
Reserved for primary road	3,157,015
Reserved for local road	456,163
Reserved for MUSTFA	20,000
Unreserved - undesignated	1,137,566
	<hr/>
TOTAL FUND EQUITY	4,770,744
	<hr/>
TOTAL LIABILITIES AND FUND EQUITY	\$ 5,954,386
	<hr/>

See accompanying notes to financial statements.

Ingham County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2007

Total fund balance - governmental funds \$ 4,770,744

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 175,031,892	
Accumulated depreciation is	<u>(81,939,508)</u>	
Capital assets, net		93,092,384

Long-term assets are not available to pay for current period expenditures and are therefore deferred in the funds. These consist of:

Deferred revenue		73,464
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund Balance Sheet. Long-term liabilities at year-end consist of:

Leases payable	\$ 24,190	
Compensated absences	630,469	
Other post-employment benefits obligations	<u>117,140</u>	
		<u>(771,799)</u>

Net assets of governmental activities \$ 97,164,793

See accompanying notes to financial statements.

Ingham County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended December 31, 2007

	Governmental Fund Types
	General Operating Fund
REVENUES	
License and permits	\$ 206,826
Intergovernmental	20,357,492
Interest	188,527
Other	<u>12,350</u>
TOTAL REVENUES	20,765,195
EXPENDITURES	
Current	
Primary Road	13,382,357
Local Road	4,752,678
Equipment - net	661,283
Administrative - net	1,324,134
Drain assessment	370,734
Other	137,431
Capital outlay - net	(223,546)
Debt Service	<u>49,155</u>
TOTAL EXPENDITURES	<u>20,454,226</u>
CHANGE IN FUND BALANCE	310,969
Fund balance, beginning of year	<u>4,459,775</u>
Fund balance, end of year	<u><u>\$ 4,770,744</u></u>

See accompanying notes to financial statements.

Ingham County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Net change in fund balance - total governmental funds **\$ 310,969**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 11,255,864
Building and equipment depreciation	(656,462)
Infrastructure depreciation	<u>(4,751,601)</u>

Excess of capital outlay over depreciation expense	5,847,801
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In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental fund, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of capital assets sold. (4,000)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(Decrease) in deferred revenue	(36,732)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Principal retirement	46,866
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund. These activities consist of:

(Increase) in accrued compensated absences	(19,165)
(Increase) in other postemployment benefits obligations	<u>(117,140)</u>
	<u>(136,305)</u>

Change in net assets of governmental activities **\$ 6,028,599**

See accompanying notes to financial statements.

Ingham County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ingham County Road Commission (the "Commission") is a component unit of Ingham County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an appointed Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (16) Townships in Ingham County and maintains over 1,200 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Ingham County Road Commission. The Commission is considered a component unit of Ingham County, Michigan and is discretely presented in Ingham County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Mason, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance

5. Budgets and Budgetary Accounting

The Managing Director, acting as the chief administrative officer, submits a proposed budget for the upcoming year to the Road Commissioners. The budget is reviewed by the Road Commissioners and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a functional basis. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The Board has authorized the chief administrative officer to amend the Road Commission's budget when necessary to reflect the effects of the distribution of the distributive account and other amendments to the budget as needed. The budget is prepared on the modified accrued basis of accounting, which is the same basis as the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

6. Cash and Cash Equivalents

Cash and cash equivalents consist of the Commission's checking and savings accounts; imprest cash; and short-term investments in certificates of deposit, mutual funds, and commercial paper with an original maturity of 90 days or less.

Cash equivalents are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

7. Inventory

Inventory of road materials and equipment parts is recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventory is stated at average cost.

8. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Ingham County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 required major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings and improvements	40 years
Equipment	5 - 10 years
Infrastructure	8 - 50 years

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within the Statement of Net Assets.

10. Accrued Compensated Absences

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated leave time under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated leave time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

11. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

12. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Ingham County Treasurer's Office, and in order to make disbursements, the Ingham County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Ingham County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

As of December 31, 2007, the carrying amounts and the bank balances for each type of bank account are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 98,395	\$ 105,003
Savings accounts	5,591	5,591
Certificates of deposit	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$ 1,103,986</u>	<u>\$ 1,110,594</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2007, the Commission's accounts were insured by the FDIC for \$205,591 and the amount of \$905,003 was uninsured and uncollateralized.

The cash and cash equivalents caption on the balance sheet includes \$500 in imprest cash.

Due to significantly higher cash flow at certain periods during the year, the amount the Commission held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Investments

As of December 31, 2007, the Commission had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's/S&P Rating</u>	<u>Maturity</u>
PRIMARY GOVERNMENT				
Commercial Paper - American Express Credit Corp.	\$ 546,449	\$ 546,449	P-1/A-1	9 days
Uncategorized pooled investments				
Ambassador Funds	1,009,856	1,009,856	Not Rated	N/A
Municipal Investment Fund	<u>38,574</u>	<u>526,000</u>	Not Rated	N/A
	<u>\$ 1,594,879</u>	<u>\$ 2,082,305</u>		

The difference between the carrying amount and the market value for the above Municipal Investment Fund was due to outstanding checks at year-end drawn on this particular uncategorized pooled investment.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Commission's investments were not subject to rating by a NRSRO.

Interest rate risk

Since the Commission is required to have all investing go through the Ingham County Treasurer, the Commission has, in effect, adopted the County's policy that indicates how the County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

Since the Commission is required to have all investing go through the Ingham County Treasurer, the Commission has, in effect, adopted the County's policy that indicates how the County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

Since the Commission is required to have all investing go through the Ingham County Treasurer, the Commission has, in effect, adopted the County's policy that indicates how the County will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2007, was as follows:

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007
Capital assets not being depreciated				
Land and land improvements	\$ 1,974,127	\$ -	\$(4,000)	\$ 1,970,127
Infrastructure - land improvements	17,367,484	1,279,068	-	18,646,552
Subtotal	19,341,611	1,279,068	(4,000)	20,616,679
Capital assets being depreciated				
Buildings	6,164,367	194,432	-	6,358,799
Equipment -				
Road	9,076,175	177,228	-	9,253,403
Shop	243,529	-	(1,200)	242,329
Office	761,341	9,113	-	770,454
Engineer	148,448	-	-	148,448
Yard and storage	317,595	44,933	-	362,528

Ingham County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE C: CAPITAL ASSETS - CONTINUED

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007
Capital assets being depreciated - continued				
Infrastructure - signals	\$ 108,172	\$ 33,665	\$ -	\$ 141,837
Infrastructure - roads	109,397,233	5,787,692	-	115,184,925
Infrastructure - bridges	11,401,419	3,108,805	-	14,510,224
Infrastructure - subdivisions	<u>6,821,338</u>	<u>620,928</u>	<u>-</u>	<u>7,442,266</u>
Subtotal	144,439,617	9,976,796	(1,200)	154,415,213
Less Accumulated Depreciation				
Buildings	(2,880,621)	(156,851)	-	(3,037,472)
Equipment -				
Road	(8,014,204)	(408,056)	-	(8,422,260)
Shop	(193,149)	(5,283)	1,200	(197,232)
Office	(665,335)	(55,834)	-	(721,169)
Engineer	(124,522)	(8,657)	-	(133,179)
Yard and storage	(190,247)	(14,569)	-	(204,816)
Infrastructure - signals	(14,128)	(7,212)	-	(21,340)
Infrastructure - roads	(61,992,118)	(4,182,506)	-	(66,174,624)
Infrastructure - bridges	(2,051,170)	(228,028)	-	(2,279,198)
Infrastructure - subdivisions	<u>(407,151)</u>	<u>(341,067)</u>	<u>-</u>	<u>(748,218)</u>
Subtotal	<u>(76,532,645)</u>	<u>(5,408,063)</u>	<u>1,200</u>	<u>(81,939,508)</u>
Net Capital Assets Being Depreciated	<u>67,906,972</u>	<u>4,568,733</u>	<u>-0-</u>	<u>72,475,705</u>
Total Net Capital Assets	<u>\$ 87,248,583</u>	<u>\$ 5,847,801</u>	<u>\$ (4,000)</u>	<u>\$ 93,092,384</u>

Depreciation expense was charged to the following activities:

	Amount
Net Equipment Expense	
Direct Equipment	\$ 438,854
Indirect Equipment	101,325
Net Administrative Expense	116,283
Infrastructure	<u>4,751,601</u>
	<u>\$ 5,408,063</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2007:

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007	Amounts due within one year
Governmental Activities					
Lease purchase agreements	\$ 71,056	\$ -	\$ (46,866)	\$ 24,190	\$ 24,190
Compensated absences	611,304	529,406	(510,241)	630,469	278,620
Other post-employment obligations	<u>-</u>	<u>117,140</u>	<u>-</u>	<u>117,140</u>	<u>-</u>
	<u>\$ 682,360</u>	<u>\$ 646,546</u>	<u>\$ (557,107)</u>	<u>\$ 771,799</u>	<u>\$ 302,810</u>

Ingham County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE D: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Lease Purchase Agreements

\$139,200 Lease purchase agreement with John Deere Company consists of an obligation for two wheel loaders. Quarterly payments of \$12,289 include interest of 4.25% with the last payment due on May 10, 2008. The cost of the loaders under the lease purchase agreement amounted to \$197,700. The lease purchase agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception.

\$ 24,190

The annual requirement to pay the debt principal and interest outstanding for the above lease is as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2008	<u>\$ 24,190</u>	<u>\$ 388</u>

Compensated Absences

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused leave time under formulas and conditions specified in their respective personnel policies and/or contracts.

Accumulated leave time and related payroll taxes represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a total liability of \$630,469. The Commission has determined the current portion of the total liability to be \$278,620 and the long-term portion of the liability to be \$351,849 at December 31, 2007.

Other Post-employment Benefit Obligations

In accordance with *General Accounting Standards Board #45*, the Commission's net other post-employment benefits obligation based on an actuarially determined calculation at year-end as described in Note G.

\$ 117,140

NOTE E: FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal assistance for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditure is required to be audited for compliance under the Single Audit Act through Commission procurement. The reason for this requirement is that the Commission is required to have accounting and administrative control over the force account portion while the balance is administered by Michigan Department of Transportation.

During the period ended December 31, 2007, the Road Commission of Ingham County had no federal financial assistance (local force revenue) applicable to force account expenditures. As a result, an audit for compliance under the Single Audit Act is not required.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Commission participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time employees are covered by the retirement system.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 55 with 20 or more years of credited service
Age 60, if vested.

Reduced Retirement:

Age 50 with 25 or more years of credited service
Age 55 with 15 or more years of credited service
Age 60 with 10 or more years of credited service

Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after vested is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees contribute 0% of their annual salary to the retirement system. The Road Commission currently contributes the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2007, the Commission's annual pension cost of \$785,661 for the plan was equal to the Road Commission's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2005, using the entry age normal cost funding method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$20,630,903	\$21,367,811	\$22,424,256
Actuarial accrued liability (AAL)	26,235,825	27,326,707	28,590,161
Unfunded AAL	5,604,922	5,958,896	6,165,905
Funded ratio	79%	78%	78%
Covered payroll	4,957,245	4,830,923	4,436,483
UAAL as a percentage of covered payroll	113%	123%	139%

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	748,758	777,373	785,661
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE G: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Road Commission provides certain retiree health care benefits and life insurance benefits as other post-employment benefits (OPEB) to all applicable employees, in accordance with union agreements and/or personnel policies. The following are the Governmental Accounting Standards Board Statement #45 required disclosures and these disclosures have been implemented prospectively by the Commission. In 2007, the Commission offered the retirees a choice between two (2) options within their OPEB plan. The plan is administered by the Road Commission and is a single-employer defined benefit OPEB plan. One (1) option was a PPO and the other option was a HMO. Both are health programs, which pay for claims (less deductible and co-pay) in accordance with the group that the employee retired from. The Prescription Drug Program that is offered in accordance with the HMO plan is a self-insured program. The Road Commission does not provide payment for drugs for retirees. For most retirees, the premium is based on the cost of the Prescription Drug Program. The Road Commission pays for 100% of the Health Portion of the insurance. For retirees or beneficiaries of retirees that retired before January 1, 1991, whose monthly benefits from Michigan Municipal Retirement System is \$800 or less, the Ingham County Road Commission will pay the premium for the Prescription Drug Program. The activity related to the process is accounted for in the 513 activity within the General Operating Fund. The 513 activity recognizes the payments of insurance as an expense and the premiums collected from retiree as an offset to that expense. Currently, fifty-nine (59) retirees meet those eligibility requirements.

The Commission also pays the life insurance premium for those retirees under a \$5,000 or \$10,000 policy. The total monthly premium was \$0.71/thousand dollars of coverage. In 2007, thirty-nine (39) retirees were covered at the \$5,000 level and thirteen (13) retirees at the \$10,000 level.

The plan does not issue a separate stand-alone financial statement.

Funding Policy

The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The only current contributions being made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the Road Commission.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Funding Progress

For the year ended December 31, 2007, the Road Commission has determined an estimated cost of providing retiree post-employment benefits through an actuarial valuation as of December 31, 2006. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

The Road Commission's computed contribution and actual funding is summarized as follows:

Annual required contribution/Annual OPEB cost (ARC)	\$ 766,318
Amounts contributed:	
Payments of current premiums (Gross of employee reimbursement)	<u>649,178</u>
Net OPEB obligation	117,140
OPEB obligation - Beginning of year	<u>-</u>
OPEB obligation - End of year	<u>\$ 117,140</u>

Because this is the first year of the calculation, the above OPEB cost has no interest on the OPEB obligation or adjustment to the ARC within the calculation.

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the fiscal year ended December 31, 2007, were as follows:

Annual OPEB costs	\$ 766,318
Percentage contributed	84.71 %
Net OPEB obligation	\$ 117,140

The current funding progress of the plan as of December 31, 2006, the most recent valuation date, is as follows:

Actuarial value of assets	\$ -
Actuarial accrued liability (AAL)	11,683,765
Unfunded AAL (UAAL)	11,683,765
Funded ratio	0 %
Annual covered payroll	\$ 3,459,664
Ratio of UAAL to covered payroll	338 %

The year ended December 31, 2006 was the first year that an actuarial valuation was done, so no information is available for years prior to that. Also, information related to funding progress with multiyear trend information indicating whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits is not presented since there currently are no plan assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the Commission are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are made about the future.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the Commission and the benefits are received by the eligible plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Commission and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2006, actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions include a 7.5 percent a year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment returns on plan assets, and a base payroll growth rate of 4.5 percent. There were also merit and seniority salary rate increase assumptions taken into consideration and those are detailed in the actuarial study and are based on age. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study the assumed rate ranges from 11 percent in the short-term to 4.5 percent in the long-term for health care related costs. The UAAL is being amortized as a level percentage of active member payroll over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

NOTE H: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

There are potential legal actions pending with the Commission. Due to the inconclusive nature of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by the Commission and legal counsel to be immaterial.

NOTE I: RISK MANAGEMENT

The Commission is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters.

The Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management and loss control services pursuant to Michigan Public Act 138 of 1982. In the event that the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Road Commission has not been informed of any special assessments being required.

Ingham County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE I: RISK MANAGEMENT - CONTINUED

The Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund. The Commission has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. In the event that the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Road Commission has not been informed of any special assessments being required. The Commission pays quarterly premiums to the Pool for workers' compensation insurance and occupational therapy. Employee medical benefits insurance is purchased through PHP and MERS.

At December 31, 2007, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the Budgetary Comparison Schedules presented as Required Supplementary information, the Ingham County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Ingham County Road Commission has been adopted at the major activity level for the General Operating Fund.

	Amended Amount <u>Appropriated</u>	Actual Amount <u>Expended</u>	<u>Variance</u>
General Operating Fund			
Primary Road	\$13,353,951	\$13,382,357	\$ 28,406
Equipment	655,984	661,283	5,299
Drain assessment	355,000	370,734	15,734
Other	18,000	137,431	119,431
Capital outlay	(400,000)	(223,546)	176,454

NOTE K: FUND BALANCE RESERVES

Reserved fund balance within the fund level financial statements is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2007:

General Operating Fund	
Reserved for	
Primary Road	\$ 3,157,015
Local Road	456,163
MUSTFA	<u>20,000</u>
	<u>\$ 3,633,178</u>

REQUIRED SUPPLEMENTARY INFORMATION

Ingham County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 295,266	\$ 250,000	\$ 206,826	\$ (43,174)
Intergovernmental				
Federal sources				
Critical bridge	2,200,000	2,648,000	2,749,040	101,040
Urban STP	-	879,200	1,088,789	209,589
Federal T Enhancement	507,400	507,400	503,052	(4,348)
Congestion/Air Quality funds	874,105	874,100	783,946	(90,154)
Non-Road Projects	-	-	97,735	97,735
Finalization of Old Projects	10,000	40,000	-	(40,000)
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	8,643,987	8,529,818	8,611,434	81,616
Local road	2,465,000	2,465,000	2,500,503	35,503
Primary urban road	1,345,005	1,345,005	1,344,926	(79)
Local urban road	400,677	400,677	469,547	68,870
Local sources				
Township contributions	2,248,057	2,073,000	1,799,397	(273,603)
Other contributions	10,000	240,000	399,123	159,123
Total intergovernmental	18,714,231	20,012,200	20,357,492	345,292
Interest	35,400	160,000	188,527	28,527
Other				
Trade-In Allowances	1,850	1,800	-	(1,800)
Proceeds on Equip Sale	25,000	25,000	1,200	(23,800)
Salvage Sales	9,200	7,000	7,150	150
Sale of Building/Land	-	4,000	4,000	-0-
Bond Proceeds	500,000	-	-	-0-
Total other	536,050	37,800	12,350	(25,450)
TOTAL REVENUES	<u>\$ 19,580,947</u>	<u>\$ 20,460,000</u>	<u>\$ 20,765,195</u>	<u>\$ 305,195</u>

Ingham County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Maintenance	\$ 4,396,039	\$ 4,558,542	\$ 4,701,060	\$ (142,518)
Structural and capacity improvements	6,916,834	8,795,409	8,681,297	114,112
Total primary road	11,312,873	13,353,951	13,382,357	(28,406)
Local road				
Maintenance	3,464,675	3,808,284	3,722,853	85,431
Structural improvements	698,385	1,455,982	1,029,825	426,157
Total local road	4,163,060	5,264,266	4,752,678	511,588
Equipment				
Direct	1,787,360	1,264,871	1,219,226	45,645
Indirect	2,093,430	1,441,113	1,408,980	32,133
Operating	391,731	350,000	396,035	(46,035)
Less: Equipment rental	(2,213,775)	(2,400,000)	(2,362,958)	(37,042)
Total equipment	2,058,746	655,984	661,283	(5,299)
Administrative				
Administration	1,504,016	1,499,799	1,349,149	150,650
Less:				
Overhead - State	(2,800)	(2,000)	(24,445)	22,445
Purchase discount	(2,100)	(2,000)	(570)	(1,430)
Total administrative	1,499,116	1,495,799	1,324,134	171,665
Drain assessment	404,000	355,000	370,734	(15,734)
Other				
Non-Motorized Pathways	-	18,000	137,431	(119,431)

Ingham County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL - CONTINUED

GENERAL OPERATING FUND

Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES - CONTINUED				
Capital outlay				
Capital outlay	\$ 813,550	\$ 250,000	\$ 425,705	\$ (175,705)
Less: Depreciation and depletion	(815,000)	(650,000)	(649,251)	(749)
Total capital outlay	(1,450)	(400,000)	(223,546)	(176,454)
Debt service				
Principal payments	60,404	49,200	46,866	2,334
Interest payments	5,406	5,500	2,289	3,211
Total debt service	65,810	54,700	49,155	5,545
Contingency Fund	200,000	-	-	-0-
TOTAL EXPENDITURES	<u>\$ 19,702,155</u>	<u>\$ 20,797,700</u>	<u>\$ 20,454,226</u>	<u>\$ 343,474</u>

OTHER SUPPLEMENTARY INFORMATION

Ingham County Road Commission

STATEMENT OF CHANGES IN FUND BALANCE

GENERAL OPERATING FUND

Year Ended December 31, 2007

TOTAL REVENUES	\$ 20,765,195
TOTAL EXPENDITURES	<u>20,454,226</u>
NET CHANGE IN FUND BALANCE	310,969
Fund balance, beginning of year	<u>4,459,775</u>
Fund balance, end of year	<u><u>\$ 4,770,744</u></u>

Ingham County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 15,259,751	\$ 5,267,761	\$ 237,683	\$ 20,765,195
TOTAL EXPENDITURES	14,939,632	5,433,049	81,545	20,454,226
CHANGE IN FUND BALANCE	320,119	(165,288)	156,138	310,969
Fund balance, beginning of year	2,836,896	621,451	1,001,428	4,459,775
Fund balance, end of year	<u>\$ 3,157,015</u>	<u>\$ 456,163</u>	<u>\$ 1,157,566</u>	<u>\$ 4,770,744</u>

Ingham County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ 89,049	\$ 117,777	\$ -	\$ 206,826
Intergovernmental				
Federal sources	5,124,827	-	97,735	5,222,562
State sources	9,962,560	2,973,850	-	12,936,410
Local sources	-	2,127,357	71,163	2,198,520
Total intergovernmental	15,087,387	5,101,207	168,898	20,357,492
Interest	75,549	46,995	65,983	188,527
Other revenue	7,766	1,782	2,802	12,350
TOTAL REVENUES	<u>\$ 15,259,751</u>	<u>\$ 5,267,761</u>	<u>\$ 237,683</u>	<u>\$ 20,765,195</u>

Ingham County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Maintenance	\$ 4,701,060	\$ 3,722,853	\$ -	\$ 8,423,913
Structural and capacity improvements	8,681,297	1,029,825	-	9,711,122
Equipment expense - net	327,930	333,353	-	661,283
Administrative expense -net	977,116	347,018	-	1,324,134
Capital outlay - net	(167,660)	-	(55,886)	(223,546)
Drain assessment	370,734	-	-	370,734
Debt service	49,155	-	-	49,155
Other expenses	-	-	137,431	137,431
TOTAL EXPENDITURES	<u>\$ 14,939,632</u>	<u>\$ 5,433,049</u>	<u>\$ 81,545</u>	<u>\$ 20,454,226</u>

Ingham County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2007

	Balance Jan. 1, 2007	Additons	Deletions	Balance Dec. 31, 2007
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 1,974,127	\$ -	\$ (4,000)	\$ 1,970,127
Infrastructure - land improvements	17,367,484	1,279,068	-	18,646,552
Subtotal	19,341,611	1,279,068	(4,000)	20,616,679
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	6,164,367	194,432	-	6,358,799
Equipment				
Road	9,076,175	177,228	-	9,253,403
Shop	243,529	-	(1,200)	242,329
Office	761,341	9,113	-	770,454
Engineer	148,448	-	-	148,448
Yard and storage	317,595	44,933	-	362,528
Signals	108,172	33,665	-	141,837
Infrastructure - Roads	109,397,233	5,787,692	-	115,184,925
Infrastructure - Bridges	11,401,419	3,108,805	-	14,510,224
Infrastructure- Subdivisions	6,821,338	620,928	-	7,442,266
Subtotal	144,439,617	9,976,796	(1,200)	154,415,213
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	(2,880,621)	(156,851)	-	(3,037,472)
Equipment				
Road	(8,014,204)	(408,056)	-	(8,422,260)
Shop	(193,149)	(5,283)	1,200	(197,232)
Office	(665,335)	(55,834)	-	(721,169)
Engineer	(124,522)	(8,657)	-	(133,179)
Yard and storage	(190,247)	(14,569)	-	(204,816)
Signals	(14,128)	(7,212)	-	(21,340)
Infrastructure - Roads	(61,992,118)	(4,182,506)	-	(66,174,624)
Infrastructure - Bridges	(2,051,170)	(228,028)	-	(2,279,198)
Infrastructure- Subdivisions	(407,151)	(341,067)	-	(748,218)
Subtotal	(76,532,645)	(5,408,063)	1,200	(81,939,508)
Net Capital Assets Being Depreciated	67,906,972	4,568,733	-0-	72,475,705
Total Net Capital Assets	\$ 87,248,583	\$ 5,847,801	\$ (4,000)	\$ 93,092,384

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners
Ingham County
Mason, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Ingham County Road Commission as of and for the year ended December 31, 2007, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated June 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ingham County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ingham County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ingham County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

2006-2 ADMINISTRATIVE POLICIES AND PROCEDURES

Condition: Based on our discussions with management and review of administrative policies and procedures, we noted that the Commission has not formally adopted written procedures and policies in certain areas.

Criteria: Documenting specific policies and procedures allows employees to have a clear understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible.

2006-2 ADMINISTRATIVE POLICIES AND PROCEDURES - CONTINUED

Effect: Management has not placed adequate internal control systems into operation over certain procedural areas.

Recommendation: We recommend the Commission take steps to ensure that administrative policies and procedures are formally documented as follows:

- A policy on fraud prevention should define the scope of the policy and include a definition of actions constituting fraud and the appropriate procedures to follow when reporting fraud or suspicions of fraud.
- A business continuation plan should be put in place and it should identify areas of operation that are critical to the Commission and detail how the Commission would continue to operate in the absence of those critical areas of operation.

Corrective Action Response: Management of the Commission is currently reviewing procedures related to identification and modification of existing policies or adoption of new policies to cover the above noted areas.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. The significant deficiency described above was not considered a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ingham County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that was required to be reported under *Government Auditing Standards* and is described below.

2007-1 BUDGETS

Condition: As noted in the financial statements, some of the activities of the Road Commission exceeded the amounts appropriated.

Criteria: Michigan Public Act 621 of 1978, as amended, requires that the Road Commission not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Effect: The Road Commission has not maintained adequate control over budgetary compliance in accordance with State law in the certain activities where the overages occurred.

Recommendation: We recommend the Road Commission monitor expenditures against adopted budgets on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

Corrective Action Response: Management of the Commission is currently reviewing procedures related to budgetary compliance in accordance with State law.

The Ingham County Road Commission's responses to the findings identified in our audit are described above. We did not audit the Ingham County Road Commission's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Board of County Road Commissioners, others within the County, and the pass-through grantors and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 3, 2008